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The Russian Securities Markets: Regulation and Practice

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NEW YORK LAW SCHOOL CENTER FOR INTERNATIONAL LAW

The Russian Securities Markets: Regulation and Practice

MR. WELLINGTON: Good afternoon, ladies and gentlemen. I'm Harry Wellington and I'm the Dean of the New York Law School. It's my very, very great pleasure to welcome you to this, the second symposium of our International Law Sector. This is a symposium that is jointly sponsored by the Center and by the New York Law School *Journal of International and Comparative Law*. The Director of the Center for International Law is a very old friend of mine, Sydney M. Cone, III, affectionately known as Terry, and was indeed a student of mine at the Yale Law School. And at the Yale Law School he was the Editor-in-Chief of the Yale Law Journal, among many other things. Terry, when he graduated, went to work at Cleary, Gottlieb, Steen & Hamilton, and has been with that firm since then. He is a distinguished and Senior Partner in the firm, or I should say was. For he is, in addition to being the director of the Center for International Law, also the first holder of a new chair, this C.V. Starr, the Starr professorship of the law of international trade and finance.

It was endowed by the C.V. Starr Foundation. Terry has an enormous experience in international finance. He has been instrumental in the growth of Cleary, Gottlieb in that field. He has been in its Paris office, its Brussels office — twice, I guess — in the Paris office. He helped establish the office in the Soviet Union. And Cleary, Gottlieb was, and now is, counsel to the government of Russia.

Terry is not only a person who knows the practice of international trade as well as anyone, but is also an author of an extraordinary book which has just been published by Little, Brown & Company. And the name of the book, "International Trade in Legal Services — Regulation of Lawyers and Firms in Global Practice." And this is becoming of a special interest to Professor Cone.

The book I urge on you, any of you who have any interest in this fascinating subject — it's a joy to read. It's witty and informative, and it speaks to lawyers in a very important and substantive way.

So, Mr. Director, and Mr. Professor, and friend, if you would take over, I would appreciate it.

MR. CONE: Thank you very much, Harry. I'm a new Professor, but I have learned that when you're asked to do something by the Dean, you do that, so if you would like me to take over, sir, I certainly shall, and I will do my best. I thank you for your kind comments about me.

The subject of this afternoon's symposium is the *Russian Securities Markets: Regulation and Practice*. We have a very good panel, in fact, outstanding panel, to deal with this subject. One of our panelists is not here. She is in Moscow. This was not planned, and although I suppose when the Center for International Law develops to the extent that we hope, we would then be able to have a participant on a panel here who is in Moscow, but we don't yet have these facilities. We are doing the next best thing.

I will be speaking on the subjects that Elena Daly was scheduled to speak on. She is very regretful that she can't be here, but she's not here, and I will deal with those subjects.

The three other panelists in the order in which they will speak are Richard Bernard, who is Executive Vice-President of the New York Stock Exchange and its General Counsel, who has had substantial experience in Russia, also a partner in Milbank, Tweed, and as a member of the group who actually drafted the Russian securities law that came into effect in April of this year.

The next speaker will be Galina Shilina. She is with Price Waterhouse, and will speak to us about Russian investment funds. I might mention at this point that following each of the talks, I hope you will feel free to ask questions. If the questions at that point seem to be going on a bit too long, I may suggest that we then hold the remaining questions for that speaker until after all the speakers have spoken. There will be a brief, a very brief intermission after Ms. Shilina has spoken.

Then Tom Sanford, Vice-President of the Bank of New York, will speak. The Bank of New York has an effective monopoly on American depository receipts representing securities issued by many foreign issuers, including all of those issuers in Russia who are now entering the international capital market.

After Tom speaks, I will speak on the new Russian securities law. And in that connection, I will use, for illustrative purposes, the Gazprom prospectus of October 28, extracts of which are in the program. We are pleased that so many people have come, and we have gotten off to somewhat of a late start, but I'm sure we will have a very good program, particularly since it will be placed in the context now by Rich Bernard.

somewhat of a late start, but I'm sure we will have a very good program, particularly since it will be placed in the context now by Rich Bernard. Rich, if I can tear you away from your word processor for just a few minutes, we very much look forward to hearing from you.

MR. BERNARD: It's not that I'm doing other work — it's that I'm trying to write my speech. We will see how I have done. One thing that one learns in Russia is to improvise.

This is an unusual faculty we have here today in the sense that we have a lawyer who's trying to quit, and a financial officer who is trying to be a lawyer. Tom over here, who is not a lawyer, is actually relishing the opportunity to teach you all about the legal aspects of doing ADRs, whereas I've been trying to quit being a lawyer for several years.

A lot of lawyers do that when they hit their mid-life crisis. Mine was so severe that I actually moved to Russia in order to quit, and actually did. As Terry said, I spent 1995 with the Executive Director, heading a technical assistance unit to the then new Russian Securities Commission. I mentioned this notion of getting out of law to Karen Ramdhanie-Davis. Karen is the Executive Editor of the *Journal of International and Comparative Law*, she said, "Oh, yeah, I'm in business school, I don't want anything to do with that legal stuff." I said, "No, no, that's not what I meant."

I do recommend for those of you that are thinking about business, when you get out of law school, that you spend some time practicing law. There's two reasons for that. One is that you will get a skill set which you didn't learn in law school which will serve you very well, even if you decide to leave the law practice. And secondly, one never goes back. If you start in business, you will never go back to law practice.

When I was fired by the Russian government last November, I came back to the chairman of the New York Stock Exchange saying that I needed a job, and he said okay, and he hired me as an Executive Vice-President, but he didn't tell me what my job was. He said I would either be the general counsel or in charge of our international effort. I have pleaded with him to make me in charge of our international effort, but my pleas fell on deaf ears, and a week later he made me his general counsel after all. That's what I am today, but I do keep my hands in Russia as an outlet for my other impulses.

For this reason, I told Terry that I refuse to speak on legal topics today, and I won't. I will leave that to the non-lawyers on the panel. What I want to do instead is give you a kind of overview of the development of the Russian securities market and its regulations, so that when you hear about the legal aspects, you have a context for that.

I had hoped to get away with a lot today, because I assumed most people here wouldn't know anything about the Russian Securities Market, but right here in the front seat we have got Bill McKay and Bernie Black, both of whom worked with Galina and Elena, who's not here, and also in the Russian project, John Lifton, towards the back here, came out to Russia three times over five years to help me try to teach about American securities law, so that means that I'm going to have to be a little less outrageous than I normally would be in making up facts. It does mean also that there are some seasoned veterans.

I'm going to assume that this audience is mostly uninitiated about the Russian securities market, so I will pitch it until I run out of time to that market.

Let me give you a brief geography lesson for those of you who have never looked at a map. One thing about Russia that you don't understand, until you try flying over it, is how big it is. Just to put it in perspective, Vladivostok is on the Pacific Coast. It is not, however, the eastern most time zone in Russia — there's another couple that gets you over — Vladivostok is the same distance from Moscow as New York is. That's how big this place is. It's eleven time zones from end to end, and it's eight time zones from Moscow to Vladivostok. That has some very important implications for any efforts to try to create securities markets in Russia.

For those of you who were in high school and college, and now in law school for the last few years, you might not have paid attention to what was going on in the former Soviet Union. You might have heard that the place collapsed in August 1991, officially, at the end of the year.

And what happened from the standpoint of market development over the next several years is a very radical effort at market reform in Russia headed by Yager Dagar, who was the Prime Minister through 1993. That had a particular relevance to the security market, freeing prices and otherwise letting market mechanisms begin to have their role in a massive privatization program that basically turned the control of Russian enterprises over from the state to the people. Now that isn't quite true. The people got lots of offers, but the reality of the control very quickly went officially to the managers who had been running those enterprises for the preceding several years with more autonomy as the Gorbachev efforts at creating free markets.

In October of 1993, the Russian White House was bombarded, I'm sure you saw that on television — people like staying up all night, listening to the tank fire, the machine gun fire. In 1994, the Russians began shipping shares overseas. This was the beginning of the brokerage industry. It had gotten its start in the privatization process in 1994.

Foreign investors for the first time began to take a real interest in Russian shares, and the process went on in which the Russian brokers would gather up the shares at the factory gates and from the pensioners and the other 150 million Russians who had had options, put them in the blocks in Moscow and turned them over at that time, mostly credit. Swiss First Boston had at that time about a 70 percent market share. That's no longer true today.

But that was very important, because it became the basis for real market in Russia, albeit a very peculiar one, and it was a catalyst. Just as I began to work for the Russian government, the bottom of that market fell out. That was December and January of 1994-95. That was the Mexican prices you remember which had a ripple effect throughout the markets. There are also some issues with U.S. interest rates.

There was Chechnya in Russia. There was a currency debacle. There was also renationalization. The foreigners had been an engine of that market, and as a result, the market went into dograms for the first part of 1995. That's kind of a general overview.

As you know, the more recent history was the parliamentary elections in December of 1995. Also the presidential elections in June and July of 1996 and President Yeltsin's heart problem, which I think at the moment looks like it may have been solved. This really means that there's been a tremendous extended period of political uncertainty in Russia, and that hasn't been real good for development of the domestic market, as we will see.

We were in a race against time during 1995 and indeed, during this whole period of reform, because we knew that if we did not find a way to create a capital formation process for Russian companies, all that would happen is that the sort of the central planning process and the Spaniard provision of a capital by the center would be replaced by a kind of a monopolistic holding structure, and indeed that sort of process is very much alive and well today.

And therefore, we engaged in a number of sometimes heroic efforts to jump start the capital market process. Bill, for example, is in many senses the chief architect of an effort to create a first western-style public offering in Russia. This actually occurred in the fall of 1994, if I remember right, Bill, with a company called Red October, which was the candy factory.

AUDIENCE MEMBER: Question, if I may. Do you think that the effort to build a stock market center financial system before the banks took over — which I think is fair to say — has largely been unsuccessful, was doomed? I don't see such an effort having worked very well in the other

post-communist countries either. Or are there identifiable things that might have been done differently that might have led to a different outcome?

MR. BERNARD: That's a tough question. Let me give it a little more context to the rest of the folks here. Then I will try to answer that.

I will back into it by giving you a beginning answer, which is that the biggest difficulty I now know with hindsight is that you can take the communism out of Russia, but you can't take the government out of Russia. And much of what has and hasn't happened in terms of the development of the economy market in Russia is directly attributable to the fact that the government, despite the demise of communism, remains pervasively involved in efforts to create a capital market. We have spent enormous energies, as everybody well knows, in avoiding or skirting or marshaling forces in support of an ongoing battle between the central government and the Russian commission that we served for control over the market and corporate securities — it involved a tremendous amount of energy.

And as I reflected about that, and we were pursuing a kind of U.S.-oriented model that would have had market participants really albeit with the Russian governments playing a catalytic role, but what we discovered is that the extent of the commission backed off and tried to let the market participants get anywhere, somebody else came into the vacuum. Indeed at one point, it was the supposedly privatized communications network of the KGB that was given a presidential decree to wire the securities markets. It was an ongoing struggle — and the new federal commission office, the Ministry of Finance, also the Parliament, also the government versus the presidential administration — Russia has many sources of political power, and they all jockey for positions constantly, as you can tell if you follow the headlines about what happened in the Kremlin.

Some days I get up and say, you know, the Central Bank is right, government intervention is a fact of life in Russia, that's going to be a fact of life for a generation. Public and democratic institutions, the way we know them, are a generation away. That means the government is going to be in the middle of it. You might as well join forces with the strongest government unit and get it done in a way that Russia has their Central Bank, which is, the Central Bank regulates its place — it's the most extreme model of any Central Bank's intervention and government securities markets in the world.

On other days, I think the one thing we don't want to do is create a centralized structure. I'm an officer of the New York Stock Exchange. We are in the U.S. context nearly 85 percent of the trading in the stocks

that we list in the United States. And that's a very good model in my opinion, because you don't want to fragment markets.

But any time you create a monolithic market like the New York Stock Exchange, somebody is going to try to control it. It's going to be one part of the government or another part of the government or some third force. Maybe we're better off fragmenting the securities markets in Russia and making it hard for any one group of people to control. So, Bernie, I guess my answer is the jury is out on that question, and at this moment I don't have a clear answer for you.

I want to come to the issue of capital formation in Russia in the time that's allotted to me. As I mentioned, Bill, in his project, and Galina, when she talks about investment funds in Russia, will be talking about efforts to find capital in but one thing that's clear, holding companies are not, Russia is a long way away from having the ability to form the capital it needs in order to meet the needs of its enterprises. This is partly just a historic phenomenon. You look into the United States, and our great enterprises grew up with our capital market. The capital market grew and developed as needs for capital became extent. Russia, of course, took a 70-year hiatus on its capital markets. They shot the brokers in early '20s, and that was that until the early '90s.

At the same time, using central planning and central funding, they of course built massive enterprises, so suddenly it's 1993 or 1994, and you have this huge demand for capital, and it's extraordinary because, even though it's not Greenfield, you have tremendous needs, you intuitively understand to restructure and rebuild Russia, which among other things is very skewed in terms of a market economy, in terms of heavy industrial development, as opposed to service industry. So it's clear that capital needs are tremendous, but if you take a look at the ability of Russia to form capital, let me just give you a couple of ideas about that. Terry is going to talk about the Gazprom issue a little later. The Gazprom issue was bought for \$350 million, it's only one percent of Gazprom's outstanding shares.

The highest trade gap record in the Russian trading system, which is the sort of NASDAQ-like equivalent that Bill and I built over there, was \$47 million worth of shares. That means it would take that market seven days just to service one percent of Gazprom. Put that in contrast with the New York Stock Exchange where we're trading about 430 million shares a day, that's something in the nature of \$20 million worth of shares every day, and that's 50, 60, 70 times the size of the Gazprom offering, and you begin to understand what a huge capital formation engine Russia needs in order to meet her capital needs.

Last year in connection with gaining a world bank loan for Russia we did some work on how fast the Russian market could develop and where it could get to the point where it could significantly contribute to its own capital formation, and just looking at comparable events, albeit different ones like Taiwan and Korea and Thailand.

In the best of circumstances, and clearly we haven't had the best of circumstances, in the last year it's been basically standing still in terms of Russia capital formation. In the best of circumstances it would take Russia five years to begin to meet even half of its needs. So that tells you that Russia is going to have to turn to overseas capital to meet the needs of its enterprises, and indeed part of the reason that the Russian government embraces this turning point in capital, and they embrace it in a very concrete way, the chairman of the Russian Commission, the former prime minister, who were both here on Friday at the New York Stock Exchange when we listed Dimplecom, which is the first Russian company to be listed on the New York Stock Exchange, they embraced this because they understand that's the only way Russia can meet its capital formation needs in a way that will not create or exacerbate the creation of new holding companies in Russia. This is always a sensitive issue. Let me give you one more statistic. About \$43 billion is the amount of savings. That's the one number that is given for their amount of savings in Russia. That's less than three days, maybe two days of trading on the New York Stock Exchange. That's the kind of huge gap between the capital formation process in Russia today and what is needed for Russian enterprises. For those of us whose hearts are in Russia, but the jobs are in New York, one might wonder whether they can reconcile these two things, and in fact, they're easy to reconcile. The Russian government, for the reasons I stated, has been very supportive of Russian companies seeking capital.

They have a second reason, which is they believe — and it's true that complying with U.S. regulatory requirements, and particularly disclosure and accounting standards, both of which of course are necessary to list on the New York Stock Exchange, will obviously raise the top tier companies in Russia to the world standard in terms of disclosure and accounting — will have an effect of rippling down to the tiers of Russian companies that will never trade in the New York Stock Exchange. And let's be very clear about that.

I can imagine twenty Russian companies, perhaps trading on the New York Stock Exchange within five years, and maybe a handful beyond that in the future. That leaves 20,000 companies in Russia that need capital, they're not going to be provided by the New York Stock Exchange, and even only a handful below that will be provided by other international markets as well. So it's obviously very key to develop the Russian capital

market, not just to displace foreign investment in good times, but indeed to meet the needs of the rest of the Russian companies.

One thing we know at the New York Stock Exchange and foreign investment, I should say the trading of foreign shares becomes an increasing, more significant part of what we do, is there are, in fact, synergistic effects between the trading of company shares of the New York Stock Exchange and global markets, because what happens, and you can see it all over Latin America Exchanges — and in time even though the New York Stock Exchange, for example, the New York Stock Exchange is unquestionably the primary market for Dimplecom, in fact, it is 100 percent the market for Dimplecom, because there is no local market — I shouldn't say that, I'm sure there is some over-the-counter trading, but there is no official local market in Russia for Dimplecom. But that's a very unnatural development.

In time, advantages of the local market has in terms of time and news and the focus of the most logical investors eventually displaces overseas markets, but they have to do a few things; what they have to do is to fix the plumbing. Russia has very spectacularly failed to do with a few exceptions, like the registrar of the Bank of New York, like the trading system that was based on NASDAQ'S offer. They have not fixed a lot of other things. They continue to spin off new ideas for the central depositories and for new stock exchanges, but none of them have seen any kind of concrete friction.

I want to close, though, with my confession as to how I reconcile my day job with where my heart is. Those of you who read your history will remember that while the Russian Army, the Soviet Army bore the brunt of fighting during World War II, much of that fighting was done on the carriages and the aircraft and the tanks of munitions and vehicles manufactured in the United States. And it was those vehicles that made it possible, along with tremendous production of their own, to defeat the fascists.

And I'd like to think about what Tom and I and others are engaged in is very much the same idea — that we will be the arsenal of capital, like the United States is the arsenal for the allies during World War II. We will help them get their capital markets going. We will help them get their enterprise capitalized, and in time, just as the sad part of our history, Russians managed to do very much in the creation of the munitions, so too Russia will take her place among the major capital markets of the world. Thank you very much.

MR. CONE: Thank you very much. Are there any immediate questions, or can we hold further questions until later?

We will go to our next speaker, Galina Shalina. She is the Russian who has her heart in New York. We're delighted that she is in New York with Price Waterhouse. She's here for a couple of years with Price Waterhouse, and she is an expert on Russian investment funds, and will speak to us on that subject.

(Whereupon, this portion was not transcribed by the reporter.)

(Whereupon, a short recess was taken.)

MR. CONE: The next speaker to go is Tom Sanford, vice-president of the Bank of New York, who will speak to us about bank and depository receipts. It gives me great pleasure to give you Tom Sanford.

MR. SANFORD: Thank you, Terry. My material is in the program book. Rich mentioned that his body is in New York, but his heart is in Russia. I reckon that both Galina's heart and body are in Russia. Well, Sanford's body is in New York, heart's in New York, but my career pinnacle is in Russia. I have been doing depository receipts in the Bank of New York since the early 1980s. And sometimes when you are going along in your career, you wonder what it's all leading up to. I became an expert in depository receipts, not from the marketing side, but from the technical setup. And Rich mentioned that I'd like to talk about the law. Well, I guess that comes about from in the early '80s, I was asked to make the first ADR, and that's American Depository Receipt. It's not about resolution of disputes, although we do have arbitration language in our documentation.

But in any event, I was asked by Euromoney to speak at a conference on ADRs, so I didn't know very much about the subject at the time, so I started to do some research. I found nothing written on the subject.

Well, I had heard of the 1933 Securities Act, and I had heard of the 1934 Exchange Act, so I started to look at its statutes. Again, I was expecting to find, you know a section five, something like that titled American Depository Receipts. I didn't find anything. I found a small reference to ADRs in Section 12 of the '34 Act as specifically in Rule 12G-32B.

And then when I looked at documentation, I found a form called Form F6, a '33 Act registration statement. And it was for ADRs or more precisely ADSs. So that kind of launched me on my interest in the securities law.

Galina described to you all of the trouble that there is in Russia, buying securities, getting them transferred, getting them held, all of the

depositories, the registrars, this and that, it's really kind of chaotic. All you have to know about investing in Russia is the Bank of New York ADRs and the Bank of New York GDRs, Global Depository Receipts. And as attorneys you have to know something about the '33 Act, Section 5 and 4.2 and Rule 134A and Section 12, Reg D, you have to know something about the '34 Act, Section 12 may be a little bit about 10B-5, et cetera, et cetera. But I think the ADR is the answer to the problem, and that's what has been so exciting for me, as my career has kind of culminated in Russia, because imagine all the chaos in Russia after the voucher privatization that Galina mentioned. Suddenly there were 15,000 companies, 15,000 different registrars, brand new in non-existing security laws, but there were investors in the global markets that wanted to buy the stuff, and these Russian companies wanted to sell their stuff to get higher share valuations in the global markets, and in the U.S. particularly.

So gradually as those vouchers turned into shares, albeit on the register of a company's books, the Bank of New York, and specifically Tom Sanford and our lawyers and the U.S. SEC and the Russian Commission of Securities and Rich Bernard, we were able to solve problems that come up with a depository receipt that works for international investors, but didn't try to change the market mechanics in Russia. Market mechanics had got a lot better since we started doing ADRs a year or so ago, and we began our work quite a long time ago.

But nevertheless, the ADR makes investment in Russia and enables these Russian companies to sell their securities overseas and specifically in the U.S.

A couple of things I want you to come away with or points I want to make as I drift through ADRs or Russian ADRs specifically, I want you to know why ADRs and GDRs work so well in Russian finance and investment. I want you to be aware of some of the differences between Russian ADRs and GDRs, and ADRs and GDRs from other countries.

And finally, I want to tell you a little bit about the deal structures which, in fact, are legal structures that have been used by different Russian issuers to sell their securities in the U.S. and the global marketplace, specifically Dimplecom, Gazprom, Lukoil, and the only debt depository receipt probe in the Bank of New York, which is for the Ministry of Finance, the MinFin bonds, there are a lot of MinFin bonds, ADR and GDRs. So that's what I want you to come away with.

The first slide is just a warm-up, and if it's easier to see in the booklet, look in the booklet. Today \$350 billion of non-U.S. stock is held by U.S. investors. The market cap of all ADRs and GDRs are \$280 billion. So out of that \$350 billion, a lot of it is in the form of ADRs.

Now it's not all 280 billion as part of what U.S. investors hold in foreign securities, because foreigners hold ADRs and GDRs as well. But probably half of that figure is ADRs, and the other half are portfolio investments through local custody arrangements. This just shows you there's about 1,350 different ADR programs, add on to them the unregistered 144 A Reg S GDRs, ADRs, GDRs, you will get up to around 1,600, and the Bank of New York administers 1,000 of the 1,600.

I only throw this slide up for sentimental reasons. When I got into the ADR business back in 1981 or so, there were only five countries that showed on this pie chart. There was Hong Kong, South Africa, Japan, Australia and the United Kingdom. It's grown significantly because of all the emerging markets.

Now I'm going to discuss some of these deals later on, but we're going to keep going, so you might want to come back to this particular slide or vice versa. You will see what I mean when I get to the slide that I want to use for the backdrop of discussing the deals. These are the Russian equity ADRs that we do, and you will see now there's about ten or twelve different programs. We only began a year ago, and it's slow, but it's sure there's going to be a lot more very interesting depository receipt programs coming along soon. Here are those Russian MinFin debt GDRs that they do. The various different trounces, the 1999s, the 2003s, et cetera, where we have 144 As Reg S and U.S. and non-U.S. investors buy.

How do these things work? Here's a Lukoil ADR. Now lawyers like the term ADS, American Depository Shares. The Bank of New York issues depository shares against a deposit of securities in the home market. So the Bank of New York, through a local custodian, holds stock, either physically or on the books of the company, and we issue ADSs, American Depository Shares, and each ADS might equal one share or four shares or 1,000 shares or even less than a share of the underlying of the common stock of the company. Now this is a receipt. We issue the ADS.

But if somebody would like to have a share certificate that they can put under their mattress or in their safe deposit box out where they live, they would ask their broker for an ADR, and that ADR would then be printed up, or the number of ADSs that they bought through their broker.

Now, the ADR or the GDR is exchangeable with the underlying security. So technically, and actually the share price should be exactly the same. And as demand pushes the price of the whole market share up, the ADR will go up in value. Likewise, if you have a lot of demand in the ADR market, and the ADR market is big enough, it's going to pull up the share price on the home market.

Likewise, if the ruble appreciated against the dollar, that will also push up the ADR price, because ADRs are quoted in U.S. dollars, but there's no foreign exchange currency hedged, so when you buy an ADR of Lukoil or an ADS, if you bought one ADS of Lukoil, you're the beneficial owner of four shares of underlying Lukoil, and how goes the ruble, how goes your investment, all other things being equal.

ADRs and ADSs trade in the United States and they trade in the global markets. The key thing about these ADRs and ADSs and the GDRs and the GDSs is that they are eligible, for deposit settlement clearance and holding in DTC Euro clearance Cidel.

There's no DTC in Russia. Well, Russian securities, if they're repackaged into an ADR, are eligible for Euro clear cidel and DTC and many other national depositories around the world. And these securities can be listed not only in the United States and trade not only in the United States, but on the exchanges of many other countries around the world. So this stuff is a global business, it's a global security, simply because it's really eligible for depositing or central depositories and is accepted by most exchanges as a listing medium.

ADRs can be called American Depositary Receipts, Global Depositary Receipts, International Depositary Receipts, or European Depositary Receipts. There's lots of different names, but they're all essentially the same concept. A security issued by a depository against a deposit of stock held in the local marketplace. However, as things have progressed, when we're talking about an ADR, we're talking about a security where the ADR and the ADS is registered with the SEC, at least marginally, and trades publicly in the United States; whereas, the GDR has become synonymous with a privately placed depository receipt which trades in the United States pursuant to Rule 144A and trades internationally pursuant to U.S. SEC Regulation S.

So GDRs tend to be the privately placed securities. The ADRs, the publicly traded ones. Now, this is not real clear, but unfortunately, the most important exchange, you can hardly see it, Rich, but this is where ADRs trade kind of around the word. Now, if the ADR is listed on the New York Stock Exchange or on NASDAQ or on the American Stock Exchange or quoted or listed on one of our regional exchanges, you'd know that that ADR or that issuer, the company, has registered under the '34 Act. Full registrar under the '34 Exchange Act, U.S. gap financials, according to the prospectus, developed according to the rules and rates governing this development of a prospectus and so forth, but basically those that are listed on the exchanges are all '34 Act registered.

On the other hand, those that trade in the rest of the over-the-counter market, Bloombergs, Pink Sheets, Internet, Instinet Reuters in the OTC

bulletin board — those ADRs — the companies have not done a registration statement under the '34 Exchange Act. They all avail themselves of the exemption from '34 Act.

Portal, on the other hand, is where the 144A ADRs or GDRs trade, perhaps not very actively, but they are all portal eligible, but most of the institutions buy and sell their securities telephone to telephone in a more discreet way over the portal system. So that's the U.S. side of the global financial marketplace where ADRs fit so nicely into.

Then you have got the overseas exchanges. Many ADRs, Gazprom Lukoil, et cetera, they're listed on London or Luxembourg, or they're quoted on CF International, which is a part of the London Stock Exchange.

The Berlin Stock Exchange, virtually all of the Russian ADRs, and GDRs are listed on Berlin, also on Frankfurt, Munich, and a few other places in Germany. Many ADRs are listed on Toronto, Singapore, Hong Kong is giving it serious consideration as is Shanghai and ShenZen.

Most recently I helped a French company whose principal business is in Hungary headquarters in Vienna, Austria. They wanted to raise equity globally. Because their principal business is in Hungary they wanted their GDRs listed on the Hungarian Stock Exchange or the Budapest Stock Exchange. So I worked with them creating the linkages that linked up their national depository, called Keller, with Euroclear so that GDRs could go from Euroclear into the counter and be listed on the Hungarian Stock Exchange. So they could do their deal, not only in the global markets and in the U.S., but their GDRs could also trade in most of their business, so it's a long way of saying that the most recent stock market has begun to list depository receipts in the Budapest Stock Exchange. It's kind of cool stuff. This is how the depository receipt mechanism works. It's a neat chart. It could take a lot of time in discussing it. I'm not going to.

The key thing is if you look at, there's two sides to it, there's either the cross border trade on the left-hand side or the depository receipt intramarket, so when the investor wants to buy an ADR, if you wanted to buy Lukoil and you went to Merrill Lynch, Merrill Lynch might buy the ADRs that already exist on the over-the-counter market, for example. But if Merrill can't find them there, they're going to enter into an arbitrage transaction where Merrill, not the Bank of New York, we're only doing something administrative, Merrill Lynch calls up a broker in Moscow, perhaps Trial A Dialogue, and buys 400 shares of Lukoil to satisfy your order of 100 ADRs, and instructs the broker in Moscow Trial A Dialogue to get in touch with our custodian, IN Bank of Eurasia, Moscow, and arrange a time like tomorrow morning at 11 o'clock to go to the company's registrar and reregister the stock out of the name of the

seller into the name of the Bank of New York. Then our local custodian gets a copy of the extract from NekOil that shows our position with the registrar, and looks at the company now increasing by 400 more shares. They run back to their office, the local custodian's office, and send us a Squibb message telling us that we now have our account on the books of the company, an additional 400 Lukoil shares. We're to issue 100 new ADSs and deliver them to Merrill Lynch through DTC.

Then, Merrill Lynch might deliver them onwards to Euroclear. That's where you're actually going to hold your securities. That neat elliptical thing sort of suggests a relationship between the market maker and this very central — that's where they keep their ADRs on your behalf. But that's the arbitrage of the transaction.

Likewise, when you have had enough of Lukoil, it's gone up three or four times, you have to pay for something. You start to sell your Lukoil, you go back to Merrill Lynch, and Merrill Lynch will have the same alternative, either sell the depository receipt in the DR market on the right-hand side or take your depository receipts from you, give you your price, and you will get your money on T plus three, but Merrill Lynch will deliver the ADSs back to us, we cancel the ADSs and instruct our custodian to reregister the stock out of our name back to the name of the new buyer in Russia that Merrill Lynch and Trial A Dialogue have identified. That's the way the ADRs are canceled, and shares are sold back onto the underlying — put back onto the local market. It sounds complicated because I'm doing it quickly, but it's a very simple process.

But what is key is that the Bank of New York is simply holding stock, issuing depository receipts, canceling depository receipts and delivering out stock, and then taking care of providing services to the shareholders of the ADRs and ADSs and passing the benefits of the ADR program, passing the benefits of the ADR program, which are memorialized in the deposit agreement from the stock from the company, and the stock on to the ADR investor. This is why Russian companies like depository receipts, they can raise money and they improve their share valuations, and they can also, administratively it simplifies the recordkeeping. The Bank of New York is on their books, not one thousand million ADR investors.

So, all they see is the Bank of New York on their books, so that simplifies their life as the corporate secretary and the ADR repackages their stock, which is coming out of this illiquid inefficient brand new market place, and makes it eligible for trading and global marketplace and specifically the USA.

Advantages to investors, A, they have got choice, B, they have got a security they can buy just like any other security, and C, it addresses a

lot of local risks that are either real or perceived in the Russian market that I'm going to look at in just a moment, risks like risk to the registrar, ownership risks, settlement risks and so forth.

And the ADR, what becomes foreign investment restrictions, what I'm specifically referring to there is 17F5 of the '40s Act. The ADR is a separate security from the underlying shares, so the U.S. institutional investor that buys an ADR doesn't have to worry whether or not the custodian is holding a stock in the home market is 17 F qualify, because the SEC views it that they have bought a U.S. security and they can custodize (sic) in DTC or State Street Bank of Boston or Chase Manhattan Bank or where it might be, so there's that disconnection between the underlying security and the ADR which resolves the 17F5 — but essentially it boils down to convenience cost of liquidity.

There are risks in Russia, most of them I think now are becoming more perceived than real. But obviously when you set up 15,000 registrar companies after the voucher privatization, some of those registrars aren't going to be too competent. Some of them may be a bit illegal. Some of them might be simply puppets of the company.

What was happening much less often than you might have thought, but nevertheless what happened is that there were incidents where either the company or its registrar would erase the name of the foreign investor from their shareholder records.

The ADR addresses this problem beautifully. The first thing is when a company sets up an ADR program in the Bank of New York, it signs that deposit agreement that I have referred to, which is a contract between the company, the Bank of New York and the holder of the depository receipt. This concept of the third beneficiary access to the contract or rights under the contract.

The company is saying publicly "I want to have foreign shareholders, and I want them through an ADR program," so the company knows when they set up an ADR program that there are going to be foreign investors.

Secondly, the company undertakes in the deposit agreement to be solely liable their acts of their registrar. The registrar makes an erasure to our name. The company is obliged to replace the shares. And the company in the deposit agreement makes a number of other undertakings that were required by our U.S. SEC when we talked to the SEC about Russian deposit agreements. There's extra protections in there make sure that the company is looking after the affairs of its registrar, and the company is responsible for the acts of the registrar. I think that's fantastic. If you're investing in the company, so you're investing in the integrity of their management, and that company has said, "We're solely liable for the acts of our registrar."

And thirdly, there's termination language in the deposit agreement. The company wants out, doesn't want foreign investors anymore, they don't take an eraser and erase the Bank of New York's name from their books, they simply ask us to terminate the program, and essentially what would happen is that share ownership would flow back into Russia.

I'm only here to address that risk, because I do want to talk for a couple of seconds about the different kinds of deal structures that these various different ADR programs have. But we can talk about if you want a settlement risk, ownership risk.

Ownership risk is very interesting, and the MinFin bond ADR program is an excellent example of ownership getting a little bit messed up in Russia. You can ask a question on that if you care. You can look at your leisure, and these are some of the differences between a Russian deposit agreement and a deposit agreement for a company from another country. Basically, there are a lot more obligations placed on the company.

The SEC looked at this with a fine-tooth comb and said, "We want in this case the Bank of New York, we want more than just disclosure how you're operating the ADR program. We would actually like to tell you how you should operate the program or what the company should undertake to protect the U.S. investor."

It's the only time I know in my 15 or 16 years in ADR experience where the SEC has left that traditional route of just demanding full disclosure to that of putting in some qualitative standards into the deposit agreement. Now, these are the ADR structures. And I will just tell you real quickly on the ones that I wanted to share with you.

Dimplecom did a registered public offer. They did a full registration under 1933 Securities Act. The company is a reporting company under the '34 Act. They have a New York Stock Exchange listing, and they sold \$90 million worth of stock as ADR on the U.S. public markets. We called that program a level 3 ADR. Gazprom also raised equity, but they didn't want the final prospectus to become a registrar under the '34 Act, they wanted to sell their stock in the United States privately. They used the bifurcated structure where they sold some of their depository receipts pursuant to Rule 144A, so there's a 144A deposit agreement and global GDR with some special cusick (sic) number, and then for non-U.S. investors they sold those GDRs pursuant to Regulation S, an offshore sale with its own — and that Reg S GDR has its own unique identifying cusick number, so the two are separate.

However, Reg S has become eligible to be purchased by the likes of us after 40 days, whereas the Rule 144A's have to stay private for the

United States private placement market for at least two years. So we call that the bifurcated structure.

Finally, Lukoil did a very successful program. I should say that the Gazprom one is the private DR down on the lowest rung. What Lukoil did, Lukoil didn't want to raise new equity, they simply wanted to set up a program for all the existing shares simply to get a better share line valuation they wanted the Bank of New York to set up a program to facilitate the investment into Lukoil ADRs. They didn't want to issue new stock to put it into the program. They didn't want to register with the SEC either. They wanted to be exempt from registration pursuant to that 12G-32B extension that I mentioned earlier on. They set up a level 1 ADR program, and today there's hundreds of millions of dollars worth of stock that has come out of the Russian over-the-counter market that's been reregistered into our name, and now it's trading as level 1 ADRs in the U.S. OTC Pink Sheet market.

The only structure that a Russian company has not yet done is a level two, which is a structure for already existing shares, but where the company wants the securities to trade on the New York Stock Exchange already existing shares so they don't have to do a full '33 Act registration, but they do have to become reporting under the '34 Exchange Act. Lukoil wants to do that, and no doubt they will, to change the locus of the trading of their level 1 ADR to the New York Stock Exchange.

The MinFin bonds are basically trading United States pursuant to Rule 144 A, and we can talk about that later on in the Q and A period.

I have spoken long enough, but I will just say in concluding for you folks who are studying law to become lawyers, I think you're in for a great career. I hope you all become securities lawyers. You cannot imagine the level of respect that our SEC and our general regulatory framework and legal framework where lawyers such as you -- they're gatekeepers and so forth, how much respect our regulatory framework in the SEC and the New York Stock Exchange has all over the world. I mean, we are the epitome, and just as Rich said earlier on, it's our capital markets, our financial markets, and our regulatory framework, that is, you know, taking us into this next era of global cooperation. Thank you.

MR. CONE: I will make the transformation from host to speaker. My subject is the new Russian Securities Law which came into effect last April. It's barely seven months old. I will discuss this law in three aspects. I will try to put it into its local context and its Russian context. I will talk about what the law doesn't do. I will look at those provisions of the law that deal with foreigners. After doing that, I will analyze the

law in the context of the October 28, 1996 prospectus, the Gazprom prospectus, which is exactly three weeks old today.

Looking at the Russian law in context, it was a law that was a long time — the first draft was produced in 1991. It was not adopted. Instead, a regulation called Regulation 78 was adopted in December of 1991. This regulation was amended and supplemented many times. Meanwhile, the drafting of the law continued, and it went through many drafts.

It was finally published in April of this year. However, Regulation 78 remained and remains in effect. This means that to the extent that the regulation is amended, has not been expressly replaced by law, the regulation is still effective. The law, itself, having gone through so many drafts, contains a lot of residue of the drafting process, which makes it not always easy to understand.

Let me give two examples of this problem. The first is I have already mentioned that in addressing any particular issue, one has to look at not only the law, but Regulation 78 as it's still around.

The second example is that the status of the 15-member securities commission that was created by the law has been the subject of a lot of in-fighting. In August of this year, the presidential decree was issued that reduced the status of the commission to the status of the state committee. The commission was to report not to the President, but a state committee reporting to the prime minister. In September, this decree was rescinded. The status of the commission was ostensibly approved.

However, the status of the chairman of the commission is still unclear. In fact, the chairman is simply the acting chairman. Now the consequence of having Regulation 78 is still in effect is that the ministry of finance in the central body still have a great deal of authority in this area. And there's a continuing turf war, a fight for turf going on among the new commission, the ministry of finance and the central bank. The ministry of finance retains jurisdiction over broker dealers. The central bank retains jurisdiction over credit institutions that engage in securities transactions. This is a most difficult situation from a regulatory point of view. The difficulty is highlighted by the fact that the only participants, the only licensed participants in the Russian Securities markets are today those that were previously licensed by the Ministry of Finance or by the Central Bank under Regulation 78.

The new securities commission has not yet licensed any participant in the securities markets. This makes for a very uneasy situation. Will the new securities commission actually be able to take control of the licensing process? One obvious problem is that the only licensed participants are those that have been licensed prior to the laws coming into effect, it is

rather difficult for new participants to get into the market. At some point, presumably, this problem will be resolved.

Let me turn now to what the new securities law does not do. It has a number of serious gaps. Perhaps the most serious is that it does not provide for remedies or penalties in the case, in the event that its requirements or prohibitions are not respected. We are told that supplementary legislation is being prepared to cure this gap. The law itself simply makes general reference to existing administrative, civil and criminal law in Russia, but such a simple cross reference is highly inadequate for dealing with the problem of remedies and penalties. Another gap relates to what we call private placements. This gap has been created by the very low threshold for the requirement that there be a registered prospectus, that is, that an offering of securities take the form of a registered public offering. Now, the threshold in bare numbers may not sound all that low. The threshold is 50,000 times the statutory minimum wage, and that works out to 350 million rubles. But in today's rate of exchange, 350 million rubles is about \$700,000. \$700,000 is an extremely low threshold for a requirement for a registered public offering and has the practical effect of destroying in Russia the concept of a private placement.

Now, once an issuer has registered a prospectus, who it's registered with is a little unclear, maybe with the commission, maybe with the Ministry of Finance, or maybe the Central Bank. There are reporting requirements, and these superficially are not unlike U.S. requirements for quarterly reports and for reports covering special occurrences in the fortunes (sic) and the operations of the issuer.

There are also requirements for special reports, and there are management changes, changes in major shareholders, changes in entities in which the issuer is itself a major shareholder.

However, the law, having spelled out these reporting requirements, omits to identify where these reports are to be filed. And it also does not indicate whether the reports are to be made public.

Presumably, these gaps also will be filled in due course. There are also reporting requirements for market participants, and there are reports required of purchasers of securities under certain situations. Incidentally, participants include brokers, dealers, fund managers, clearing agencies, depositories and market makers. And they are, as some say, subject to reporting requirements under the law. But once again, the law does not indicate whether their reports will be made public, and obviously unless they're made public, it will be very difficult for the reports to fulfill the function of informing investors and prospective investors.

A major problem in Russia relates to accounting. The securities law doesn't attempt to deal with this problem. Russia does not have a counterpart to what we call generally accepted accounting principles. What one might call, if one were permitted a pun, a "gap gap." The "gap gap" in Russia is not filled by the regulations of the Ministry of Finance on accounting and reporting. These are known as the RAR. These regulations are simply not up to the level of what we think of as generally accepted accounting principles.

There are requirements for Russian issuers to observe the RAR, but, as I say, these are not very many. To give one example, there's no requirement for consolidated financial statements. Thus, if the issuer is a holding company, it can, and indeed if it's simply a shell that is a holding company, it is only required to produce financials for itself, and the financials do not have to include any of the holding company's subsidiaries under RAR.

Now, when we get to Gazprom, we will see that it handled this problem by voluntarily preparing its financial statements under international accounting standards, but it was not required to do this under the law.

One last aspect of the law which I think is important for us as foreigners to know about is that it contains special rules pertaining to transactions that involve non-residents of Russia and pertaining to securities issued by issuers that are not residents of Russia.

Securities issued by Russian issuers under the law may be traded outside Russia only with the approval of the securities commission. This is a very troublesome provision.

Another troublesome provision is the securities of non-resident issuers may be placed or traded in Russia only after a prospectus covering the securities has been registered with the securities commission. And here not even the \$700,000 threshold is available. Any such placement or trade requires a Russian prospectus.

The law goes still further. Notices of transactions, regardless of where they occur, must be given to the securities commission whenever foreigners acquire securities issued by Russian issuers. Notices of transactions must also be given to the securities commission whenever residents of Russia acquire Russian registered securities issued by foreign issuers.

Obviously, these rules go too far, but it is not clear how they're going to be handled in practice. One possibility is that an issuer will only be required to give notice of the issue itself and will be absolved from responsibility for giving notice of transactions between individuals.

One commentator, a Russian lawyer in Moscow of the large firm of English solicitors, calls the law "*dura lex san lex*" which he freely translates, the law may be bad, but it is law. I would say that this law is not so much bad, as incomplete — a child in an uncertain political climate.

Turning to Gazprom, you have the cover of the prospectus in your program. You will note that 272,550,000 shares, if one includes the over allotment portion in registered form and were sold exclusively outside of Russia in the form of American depository shares, each of which represents 10 Gazprom ordinary shares. This was not a domestic Russian offer. Had it been a domestic Russian offering, the shares probably would have been in better form.

The shares were listed on the London Exchange, but the prospectus makes it clear that they have not been offered to the public, but in larger type it makes it clear they have not been registered to the sale to the public in the United States.

The Gazprom prospectus lacks two features which you would normally find in a public U.S. offering. One is the section entitled "Management's Discussion and Analysis." Now Gazprom hopes, I am told, in the future, to have a registered public offering in the United States, and in order to do that, it will need to develop an MDNA structure.

Much more importantly, Gazprom is going to have to upgrade its accounting in order to be able to have a registered public offering in this country. Although Gazprom endeavored to prepare its accounts which are in this prospectus in accordance with international accounting standards, the accountants made a number of significant disclaimers. They stated that the consolidated financial information in the prospectus should not be relied upon by investors who do not understand the Russian regulations on accounting and reporting, probably includes just about every investor.

They also noted that while the company had prepared a balance sheet in accordance with international accounting standards, it had never prepared profit and loss information under the international accounting standard.

Finally, the accountants pointed out that the so-called aggregated financial reports prepared under RAR "do not present the consolidated assets and liabilities, financial position or profits and losses of Gazprom, do not give any meaningful information of trends over time and cannot be compared in any meaningful way to the consolidated financial information included herein."

Let me mention what this offering as a financial matter is up to. Following the offering, two percent of Gazprom's ordinary shares were held outside of Russia. That's interesting for an investor to know how the shares of the Russian company are held. Forty percent of Gazprom's

shares are held by Russia itself, and the remainder is held by Russian shareholders who acquired them in privatization offerings that took place in 1993 and 1994. Under Gazprom's charter, no more than nine percent of its voting share capital may be held by foreign investors, and this prescription can be modified only by a 75 percent voter shareholders present in voting in the general league, and also requires the Russian government to agree to the modification.

There's obviously a ceiling on the amount that Gazprom can raise in international markets. And the amount Gazprom received from this offering will note that the shares denominated in dollars were almost 430 million. If you deduct the underwriting to ease the expenses, expenses is a euphemism for legal fees, you will see that Gazprom received about \$470 million, but the prospectus reveals that these proceeds are subject to profits tax in Russia. So Gazprom, after all this effort, ended up with about \$230 million in after taxes proceeds.

Now what is Gazprom? Gazprom is the world's largest producer of natural gas. The numbers are staggering. Its annual production is measured in hundreds of billions of cubic meters.

It is the largest supplier of natural gas in both eastern and western Europe, and it supplies substantially all of the natural gas consumed in Russia, Ukraine and certain other countries of the former Soviet Union. This sounds pretty good.

You don't have the program, so you will have to do it through me. Turn to the risk factors section of the prospectus, however, and you will see that these impressive data are subject to qualification. The prospectus describes the difficulties that Gazprom has experienced in obtaining payment for its sales of gas customers in Russia and in other countries of the former Soviet Union. Indeed, in another risk factor section the prospectus describes general problems that help explain this difficulty. As Rich said, you can't take the government out of Russia.

Another risk factor is that Gazprom has an enormous problem in maintaining in the physical maintenance, not to mention the upgrading of its system of pipelines and compressor installations spread out all over Russia as it is. It has 140,000 kilometers of pipelines, 245 compressors installation, but it does not have the means to take care of mechanical breakdowns at the level that it should. That helps explain why it's looking for funds at international — another risk factor which relates to the accounting prospectus indicates that Gazprom, in order to get its accounting up to international standards, is going to have to develop new financial reporting systems.

Finally — the audience always likes when a speaker says “finally.” Finally, the Gazprom prospectus takes us back to where we began when

we discussed various gaps in the new Russian securities law. The prospectus refers to the environment of legal uncertainty in Russia. It refers to the inadequacies of various Russian laws, including the new Russian securities law, and it mentions the need to develop the framework of legislation decrees and regulations that will meet the requirements of the market economy.

And one thing that I can mention in this context is that ADRs and the depository agreement are governed by New York law, and that any excuse relating thereto are to be resolved in arbitration in London or in litigation in English courts. Now, I may, as a lawyer, say whatever the foreseen shortcomings in Russian law in the international marketplace, it hardly seems efficient to me to call for the application of New York law by English courts.

I doubt that this solution was thought up by Gazprom or the underwriters. It may have been thought up by the two law firms that were representing Gazprom, one of which is American, and the other of which was English.

Thank you. Are there any questions?

AUDIENCE MEMBER: I have a question relating to Rich's comments about the fact that you can take the communism out of Russia, but you can't take the government out of Russia. And that concentration probably applies to a lot of emerging markets, whether you talk about China, India and Latin America.

So, in a way, you see the final solution as basically exploiting American philosophy and values to make capital markets and capital formation a success. I think it's because the laws and the transparencies and the rules and the way of doing things, they come with a package of values, and back in, say, in the '20s, the market might be a pool with the U.S., but that ordinary people were not participating in capital as much as they are now?

MR. BERNARD: Well, that's a deep question and not easily answered. And the ability to import, I won't even call it American practices, but the successful market model that may be pioneered here — bringing a different culture, whether it's Russia or China or other ones, has to be done with a great deal of humility and respect.

Having said that, I just can't imagine Russia succeeding and taking her rightful place, or China for that matter, in the world economy, burdened as Russia is today by a pervasive intervention of government in virtually every sector of the economy. It simply strangles free enterprise in a million ways every day. How you get, however, from where they are

today to some better balance on that, I truly think it is a generation thing; it's not something that's going to happen as a function of market forces, and the fact that capital formation, for example, is happening offshore today will — that's the sort of thing that will force Russia to come to grips with these kinds of strangling government intervention that will prevent it from reaching its own.

MR. CONE: I might add that, on the other hand, the United States, which is still in its first — we're a very mature country now. Think about it. We've had the same constitution for a long time. The United States does offer to other countries a lot of experience, a lot of practical experience.

If you read the Russian Securities law, and I don't ask you to inflict that upon yourselves, you cannot be struck by the fact that it follows in form and sometimes in substance the U.S. Securities Acts of 1993 and 1994. It has restrictions on insider trading. I didn't mention those. Now, these restrictions are no penalties for — where did they get that from? It has reporting reform. It has registration reform. They have all of that out of American legislation. I realize that we should not be imperialists and be counterproductive.

On the other hand, I don't think it foolish for countries like Russia to look to the United States as a place where you can find experience and knowledge with which to inspire your own approach to the global market.

MR. SANFORD: Sydney, could I just pick up on a point you made earlier on?

MR. CONE: Sure, as long as you agree with me.

MR. SANFORD: It's black and white. Sydney mentioned the strange structure of the Gazprom settlement of disputes, that part of the documentation sufficient to the London courts. That's very unusual to have U.S. law and then submission to London courts. The more typical dispute resolution and sufficient provisions, the Russian depositors are like Dimplecom transactions where Dimplecom was represented by Chadbourne & Park and, of course, that deal had to go through SEC scrutiny. But there you have settlement disputes through arbitration, either in New York or London. That point is negotiated. The documentation is governed by U.S. law and third party disputes or disputes that can't be arbitrated, the company agrees to submit to the U.S. courts. So it's the U.S. court's submission, U.S. law, but a settlement of disputes through arbitration, either in London or New York, because, typically, a court judgment of the United States will be upheld in Moscow. So Gazprom is unusual.

MR. CONE: I suppose I should disclose, since you mentioned, counsel, for that deal, the U.S. lawyers for Gazprom are a firm of which I'm a partner. And the English firm should at least — sorry. Let's go on with the questions.

AUDIENCE MEMBER: I'd just like to say my name is Natalie Nischoff and speaking about the Dimplecom prospectus, for those of you who are working in the business, or for those of you who just like to read the risk factor section at your leisure time, I have a few copies of the prospectus if you'd like to have it.

MR. CONE: Which prospectus is that?

AUDIENCE MEMBER: Dimplecom.

MR. CONE: Many, many risk factor discussions in Gazprom are sort of U.S. boilerplate. And a number of them are strongly, I suspect, the investors probably know anyway. The ones that I mentioned I wouldn't place in either one of those categories. The ones I singled out in this discussion I thought were very special to Gazprom.

MR. SANFORD: It's a special company.

MR. CONE: Thank you very much. It's been a long afternoon, I know, but I found it rewarding. I hope you have. I thank you very much for coming here. I above all thank the speakers who have taken the time to be with us and who share with us some fascinating information. Thank you.